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The Practicing CPA

NOVEMBER 1995

Published for All Local and Regional Firms by the AICPA Private Companies Practice Section 

SAILING THROUGH PEER REVIEW (PART TWO)

Last month, in the first part of this article, I described the peer review process and some preparatory steps you can take to save money on the review. Following are some suggestions for making the actual review an educational and beneficial experience.

As the review progresses, the reviewer will likely have numerous questions, and it will be easier for all concerned if there is no doubt as to which partner answered the previous question. So appoint one liaison and make sure that person is available.

The reviewer will look for documentation regarding inspection, independence, personnel, CPE, and consultation. So have these files ready. Firms that are members of the private companies practice section should have their dues receipt and membership requirement documentation ready, too.

The building blocks for the reviewer's findings are known as matters for further consideration (MFCs). The reviewer will use one MFC form for each issue raised. The MFC might state, for example, that there is no documentation for audit planning in the areas of risk assessment and preliminary judgments of materiality levels.

Now you might agree with the MFC or you might not. If you don't, this is the place in the whole review process at which to settle any disagreement. And if you don't understand the issue, always ask. Make sure you clearly understand the point at issue before you respond.

The reason for this is that you will never have an issue show up in the report or letter of comments on your review that is not evidenced by an MFC. Not every MFC ends up in the report or letter of comments, however.

What happens as the review progresses is that all of the MFCs are synthesized to see if there is a pattern or if there are pervasive quality control prob-

lems in any areas. The reviewer has to make judgments when all the MFC responses have been received. On occasion, I have written MFCs and written no letter of comments. So don't think that because you have to respond to an MFC you will automatically receive a letter of comments or an adverse report.

If you believe an issue raised by the reviewer is immaterial, make sure you clearly document the reasons why. If you don't, your opinion as to whether the matter is material won't be available to the technical reviewer at the state CPA society.

Sometimes the reviewer can't find supporting evidence for work supposedly performed. Let's go back to the example of audit planning. If the reviewer is not sure whether you did the planning, it is up to *(continued on page 7)*

What's Inside . . .

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Act Now to Make Your Views Heard

The AICPA accounting and review services committee (ARSC) has issued an exposure draft of a proposed statement on standards for accounting and review services, *Assembly of Financial Statements for Internal Use Only*, that merits the attention of every practitioner who serves privately owned companies.

The proposed statement would define the "assembly" of financial statements and provide an *optional* exemption from the requirements of SSARS no. 1, including its reporting requirements, for the unaudited financial statements of a nonpublic entity that are assembled for internal use only. A written understanding with the client would be required, and an *optional* legend would be permitted on each page of the financial statements, indicating they are restricted to internal use. To protect management as well as the CPA, a signed engagement letter would establish an understanding of the services to be performed.

Many nonpublic entities do not require financial statements that comply in all material respects with generally accepted accounting principles. Yet, current standards require CPAs who prepare financial statements solely for management's use to perform a compilation and issue a report that includes a separate paragraph describing departures from such principles. The proposed statement would permit practitioners to provide nonpublic clients with the cost-effective, timely financial information they need to run their businesses.

The issue of standards overload is an old one, but it has taken on added emphasis recently because of rapid advances in technology and increased competition in financial services from commercial enterprises. If you believe the time has come for the new standard, *Assembly of Financial Statements for Internal Use Only*, let ARSC know by responding to the exposure draft.

In an article in the August 1993 *Practicing CPA*, Judith H. O'Dell, then chair of the PCPS technical issues committee, explained how to respond effectively to exposure drafts. One of the points she made is that if you agree with the key conclusions of an expo-

sure draft, let the standard setters know your opinion. Sometimes they consider changing a position because of responses received, only to find out that the silent majority favors the position in the exposure draft.

The proposed statement provides an alternative for CPAs—it does not require anyone to offer the new service. If you would like to exchange views with other members on various aspects of the exposure draft, you can now do this easily by posting messages in the "auditing, comp. & review" message section of Accountants Forum on CompuServe.

Members who are not on the standing order list may obtain one free copy of the exposure draft, product no. 800097 (cost for each additional copy: \$6 for members, \$6.75 for nonmembers), by calling the AICPA order department, (800) TO-AICPA. Ask for operator PC. (The exposure draft is also available in the "auditing, comp. & review" section of the library on Accountants Forum.)

Members are urged to comment on the exposure draft. ARSC's chair, Wanda Lorenz of Lane Gorman Trubitt, LLP, Dallas, Texas, tel. (214) 220-7108, is willing to discuss any questions you have as you prepare your comment letter. Comments should be received at the AICPA (ARSC File 9508) by December 31, 1995. ☐

Insurance Company Merger Affects Renewals

Accounting firms currently insured by Continental Insurance Company of New York will need to transfer their professional liability coverage at renewal as Continental has been acquired by the CNA Financial Corporation and will not be renewing accountants' professional liability policies after November 23, 1995.

If you are presently insured with Continental Insurance Company of New York, you should contact Aon Insurance Services, the national administrator for the AICPA Professional Liability Plan, tel. (800) 221-3023. For your convenience, you may FAX (215) 953-4728 or mail a copy of your most recent Continental Insurance Company application to Aon.

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Highlights of Recent Pronouncements

FASB Statements of Financial Accounting Standards

No. 122 (May 1995), *Accounting for Mortgage Servicing Rights*

- ☐ Amends FASB Statement no. 65, *Accounting for Certain Mortgage Banking Activities*.
- ☐ Requires that a mortgage banking enterprise assess its capitalized mortgage servicing rights for impairment based on the fair value of those rights.
- ☐ Applies prospectively in fiscal years beginning after December 15, 1995, to transactions in which a mortgage banking enterprise sells or securitizes mortgage loans with servicing rights retained and to impairment evaluations of all amounts capitalized as mortgage servicing rights, including those purchased before the adoption of this Statement. Earlier application is encouraged.

No. 121 (March 1995), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*

- ☐ Establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of.
- ☐ Requires that:
 - 1) Long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable;
 - 2) Long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell, except for assets that are covered by APB Opinion no. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*;
 - 3) A rate-regulated enterprise recognize an impairment for the amount of costs excluded when a regulator excludes all or part of a cost from the enterprise's rate base.
- ☐ Applies to:
 - 1) Long-lived assets, certain identifiable intangi-

bles, and goodwill related to those assets to be held and used and to long-lived assets and certain identifiable intangibles to be disposed of;

2) All entities.

- ☐ Effective for financial statements for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

GASB Statement of the Governmental Accounting Standards Board

No. 29 (August 1995), *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*

- ☐ Provides interim guidance pending one or more GASB pronouncements on the accounting and financial reporting model for governmental entities.
- ☐ Establishes requirements for applying not-for-profit accounting and financial reporting principles to state and local governmental entities.
- ☐ Generally effective for financial statements for periods beginning after December 15, 1994, except as noted in the statement. Earlier application is encouraged.

Statements on Auditing Standards

No. 76 (September 1995), *Amendments to Statement on Auditing Standards No. 72, Letters for Underwriters and Certain Other Requesting Parties*

- ☐ Amends:
 - 1) Statement on Auditing Standards (SAS) no. 72;
 - 2) Statement on Standards for Attestation Engagements (SSAE) no. 1, *Attestation Standards, "Reporting on Pro Forma Financial Information."*
- ☐ Provides reporting guidance when one of the parties identified in paragraph 3, 4, or 5 of SAS no. 72, other than an underwriter or other party with a due diligence defense under section 11 of the Securities Act of 1933, requests a letter without providing the representation letter described in paragraphs 6 and 7 of SAS no. 72.
- ☐ Effective for letters issued pursuant to paragraph 9 of SAS no. 72 after April 30, 1996. Earlier application is encouraged.

No. 75 (September 1995), *Engagements to Apply Agreed-Upon Procedures to Specified Elements,*

Accounts, or Items of a Financial Statement

- ☐ Supersedes SAS no. 35, *Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*.
- ☐ Amends SAS no. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (effective for reports on agreed-upon procedures engagements dated after April 30, 1996).
- ☐ Sets forth standards and provides guidance to an accountant concerning performance and reporting in all engagements to apply agreed-upon procedures to specified elements, accounts, or items of a financial statement.
- ☐ Effective for reports on engagements to apply agreed-upon procedures after April 30, 1996. Earlier application is encouraged.

Statement on Standards for Attestation Engagements

No. 4 (September 1995), *Agreed-Upon Procedures Engagements*

- ☐ Amends:
 - 1) SSAE no. 1, *Attestation Standards*;
 - 2) SSAE no. 1, *Attestation Standards*, "Financial Forecasts and Projections";
 - 3) SSAE no. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*;
 - 4) SSAE no. 3, *Compliance Attestation*.
- ☐ Sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements.
- ☐ Effective for reports on agreed-upon procedures engagements dated after April 30, 1996. Earlier application is encouraged.

Statements of Position

No. 95-3 (July 1995), *Accounting for Certain Distribution Costs of Investment Companies*

- ☐ Amends the Audit and Accounting Guide *Audits of Investment Companies*.
- ☐ Applies to annual and interim financial statements of investment companies that adopt plans that comply with rule 270.12b-1 of the Investment Company Act of 1940.

☐ Requires:

- 1) Investment companies with enhanced 12b-1 plans to recognize a liability with a corresponding charge to expenses, for excess costs. Changes in the liability should be recognized in the statement of operations as an expense or reduction in expense;
- 2) Reporting of the liability at its present value, calculated using an appropriate current interest rate, if certain conditions are met;
- 3) Investment companies with board-contingent plans to recognize a liability for excess costs, computed in the same way as for an enhanced 12b-1 plan, when the company's board commits to pay such costs;
- 4) Certain disclosures for both traditional and enhanced plans.

- ☐ Effective for annual financial statements for fiscal years beginning after December 15, 1995, and for interim financial statements for periods in such years. Earlier application is encouraged.

No. 95-2 (May 1995), *Financial Reporting by Nonpublic Investment Partnerships*

- ☐ Provides guidance on financial statement presentation and disclosure of investments, income, and partners' capital.

☐ Requires:

- 1) That financial statements include a condensed schedule of investments in securities;
- 2) Presenting a statement of operations in conformity with the requirements for statements of operations of management investment companies in the Audit and Accounting Guide *Audits of Investment Companies*;
- 3) Presenting in the financial statements management fees and disclosing how they are computed.

- ☐ Effective for financial statements issued for fiscal years beginning after December 15, 1994. Earlier application is encouraged.

GASB Interpretation

No. 2 (August 1995), *Disclosure of Conduit Debt Obligations*

- ☐ Interpretation of National Council on Governmental Accounting Statement 1.
- ☐ Provides disclosure requirements for conduit debt obligations.
- ☐ Effective for financial statements for periods beginning after December 15, 1995. Earlier application is encouraged.

THE 1996 AICPA PRACTITIONERS' SYMPOSIUM

June 8–12, 1996 — Bally's Las Vegas, Las Vegas, Nevada

*Sponsored by the Private Companies Practice Section
in cooperation with the
Management of an Accounting Practice Committee
Small Firm Advocacy Committee
and
PCPS Technical Issues Committee*

The 1996 AICPA Practitioners' Symposium will be an educational event like no other you have attended in the past. Some of the AICPA's most prestigious committees have joined forces to plan a comprehensive conference that will provide answers, solutions and strategies for you, your clients and your firm. We've combined the educational agendas and the most popular features of the PCPS Conference, the National Practice Management Conferences and the National Small Firm Conference to create an entirely new, high-powered program. ***It's like getting the benefits of three conferences for the price of one!***

The Practitioners' Symposium offers three full days and two half-days of completely integrated learning. It's a virtual "idea fest!"

The best part is, the 1996 AICPA Practitioners' Symposium offers ***something for everyone***. There's so much to choose from in this incredibly rich conference program! You'll find over 100 different topics on the agenda allowing you to create a curriculum that best serves your individual needs and interests. To guide you and help you get the most out of this conference, we've arranged the topics by special interest tracks: Small Firm Management; Larger Local and Regional Firm Management; Tax; Accounting and Auditing; Governmental and Not-for-Profit Accounting and Auditing; Consulting Services/Personal Financial Planning; Technology; and Personal Development.

The AICPA Practitioners' Symposium is ***an incredible value***. You can earn up to 40 hours of CPE credit for only \$595.00 (that's less than \$15.00 per hour!) including up to 24 hours that may meet Yellow Book, state and SECPS education requirements. You'll also get two meals a day for three days, refreshment breaks and a welcoming reception. Your registration allows you to attend sessions in any of the eight tracks. ***Plus***, you'll have an opportunity to meet the profession's leading suppliers face-to-face and examine their products and services on the spot in the exhibit hall. The Symposium also features plenty of opportunities to meet with your colleagues, build your professional network and bridge the gap between textbook theory and real-world practice.

You'll learn from the best at the Practitioners' Symposium. Our faculty consists of some of the most sought-after authorities, savvy practitioners and leading industry consultants. We've brought back some of your favorite speakers from the past and added some new and exciting faces that you'll look for again in the future.

And where else could you hold a one-of-a-kind event like the premiere Practitioners' Symposium other than in a one-of-a-kind place like Las Vegas? This dynamic city offers more than just the allure of the Big Jackpot. You'll discover fabulous golf, elegant shopping, top name entertainment, elaborate theme parks and all the energy, glamour and excitement of The Strip. The city that built its reputation on gambling and glitz has evolved into ***a one-stop, multi-dimensional resort destination for people of all ages***.

The need for technical knowledge and management expertise has never been greater. The Practitioners' Symposium is meeting that need with an expansive conference that covers a broad range of subjects. ***Take advantage of the most comprehensive professional education resource available.*** Register for the 1996 AICPA Practitioners' Symposium.

Here's a sampling of the choices in each track at the Practitioners' Symposium:

Small Firm Management

- Practice Continuation Agreements
- Wage and Hour Issues Facing the Small Firm
- Creating the Virtual Office
- Sole Proprietor Issues
- Cost Containment Strategies
- Successful Small Firm Marketing

Tax

- Corporate Tax Update
- S-Corporations
- Estate Planning
- Divorce Taxation
- Maximizing After Tax Investment Returns
- Effective Tax Research Using CD ROM

Governmental and Not-for-Profit Accounting and Auditing (Yellow Book Express Track)

- Governmental A&A Update
- Cost Principles for Nonprofit Organizations Under OMB Circular A-133
- Performing a Single Audit for State and Local Governments
- Not-for-Profit A&A Update
- Implementation Issues Involving FASB 116/117
- Communicating Material Noncompliance and Material Internal Control Weaknesses

Technology

- Windows 95
- Cutting Edge Technology
- Capitalizing on the Internet
- Hardware Update
- Introduction to the Accountants Forum
- Imaging and File Management

Larger Local/Regional Firm Management

- Value Billing
- Partner Compensation
- Developing Niche Services
- New Models for Partners
- Nurturing Client Relationships
- Responding to an RFP

Accounting and Auditing

- FASB Update
- Auditing Standards Update
- What the Local Firm Needs to Know About Derivatives
- Performing Efficient and Cost Effective Audits
- Internal Control: Current Standards and the COSO Report

Consulting Services/Personal Financial Planning

- Developing a Niche in Business Valuations
- Business Valuation Techniques
- Employee Benefit Plan Administration
- Nontraditional Financing Techniques for Small- and Mid-Size Companies
- Family Business Succession Planning
- Hot Ideas in Retirement Planning

Personal Development

- Writing Skills
- How to Get Along With (Almost) Anyone
- Networking Savvy: From Contacts to Clients
- Power Speaking
- Improving Your Selling Skills

EIGHT IMPORTANT REASONS TO REGISTER BY JANUARY 16TH

- 1) You will be given priority selection status for a broad array of practical and informative concurrent sessions.
- 2) Your name will be entered in a drawing to win one of many valuable prizes, including a color television set, a free registration to next year's Practitioners' Symposium, a complimentary stay at Bally's Las Vegas during the conference, a free set of conference tapes, publications and many other items.
- 3) We'll give you a certificate good for a 20% discount on the purchase of conference tapes.
- 4) You'll have something to look forward to as you endure the long hours of tax season.
- 5) Your CPE planning for 1996 will be complete (the Symposium offers up to 40 hours of CPE credit).
- 6) You'll have a *well-planned* summer getaway to an exciting location already set *before* you head into tax season, and you can avoid the frenzied April 16th rush to make vacation plans. (A complimentary Las Vegas Information Kit will be sent to you automatically to help you plan your trip.)
- 7) You will receive a coupon redeemable at the conference for a free gift of chocolates from *Nevada's own* Ethel M Chocolates.
- 8) You will be *guaranteed* a spot at *the most exciting educational event of 1996* (Space is limited!).

REGISTRATION INFORMATION

Don't miss out! Register NOW using this early-bird registration form and we'll reward you with exciting drawings, fun prizes and valuable discounts. But hurry — the offer only applies to those registrations postmarked by January 16, 1996.

Registration Fees

Practitioners' Symposium Registration Fee: \$595.00

Fee includes attendance at all conference sessions; conference materials; admission to three continental breakfasts, three luncheons, refreshment breaks and a reception; admission to the exhibit hall; and access to the Las Vegas Resource and Hospitality Center. Hotel accommodations, other meals, optional tours and other activities are not included.

Spouse/Guest Fee: \$95.00

Fee includes admission to three continental breakfasts and a reception; attendance at special spouse/guest sessions; and access to the Las Vegas Resource and Hospitality Center. Hotel accommodations, other meals, optional tours and other activities are not included.

Registration Procedures

Full payment or credit card information must accompany your registration(s). Use the registration form in this brochure, and be sure to register early as this conference is expected to reach capacity quickly.

NOTE: The AICPA is not responsible for checks or letters lost or delayed in the mail. Credit card registrations are guaranteed only after VISA or MasterCard has been approved. If credit card is declined, the AICPA reserves the right to cancel registration if alternate payment is not supplied.

A confirmation letter and a listing of session descriptions will be sent to you upon receipt of your completed registration form and payment. If your registration form is postmarked by January 16, 1996 you will also receive a complete list of prizes you are eligible to win and a packet with discount coupons, certificates and a Las Vegas Information Kit. NOTE: You must be present at the conference to participate in the prize drawings.

For further information or confirmation requests, write the AICPA Meetings and Travel Department, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881 or call 201-938-3232.

Cancellation Policy

All cancellation requests must be made in writing and mailed to the AICPA, Meetings and Travel Department, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. Cancellation requests may be faxed to: 201-938-3169. No refunds for no-shows.

Cancellation request received by May 17, 1996: Full refund

Cancellation request received May 18, 1996-May 30, 1996: Full refund minus a \$50 fee

Cancellation request received after May 30, 1996: No refund

HOTEL INFORMATION

Conference registration fees do not include hotel accommodations. The AICPA has secured a group rate of \$86.00 (single or double occupancy) on a limited block of rooms at Bally's Las Vegas. Please contact the hotel directly to make your reservations:

Bally's Las Vegas — 3645 Las Vegas Boulevard South, Las Vegas, NV 89109. Telephone: 800-634-3434

After May 18, 1996, rooms will be on a space available basis only. PLEASE BE SURE TO IDENTIFY YOURSELF AS A REGISTRANT FOR THE AICPA PRACTITIONERS' SYMPOSIUM TO OBTAIN THE GROUP RATE. To guarantee your reservation for late arrival, a credit card number or first night's deposit is required.

AIRLINE INFORMATION

Exclusive airline discounts are being negotiated for this conference. You will receive information on airline discounts with your confirmation letter.

Early-Bird Registration Form — 1996 AICPA Practitioners' Symposium
June 8-12, 1996 — Bally's Las Vegas, Las Vegas, Nevada

Mail to: American Institute of Certified Public Accountants/Meetings Registration
P.O. Box 2210
Jersey City, NJ 07303-2210

Fax to: 201-938-3169 (Credit card only)

Full payment must accompany registration form. Please use photo copies of this form for additional registrants.

Registration Fees

1996 AICPA PRACTITIONERS' SYMPOSIUM REGISTRATION @ \$595.00 PER PERSON \$_____ (M1)

SPOUSE/GUEST REGISTRATION @ \$95.00 PER PERSON \$_____ (G1)

TOTAL \$_____

Method of Payment: My check for \$_____ payable to the AICPA is enclosed. **OR** Please bill my credit card: \$_____

____ Visa ____ MasterCard Signature _____

Card # _____ Expiration Date ____/____/____

PLEASE TYPE OR PRINT CLEARLY — AN ILLEGIBLE FORM WILL DELAY YOUR REGISTRATION!

AICPA member? ____ Yes ____ No Membership # _____ Bates # _____ (AICPA Use Only)

Is your firm a member of the Private Companies Practice Section? (1) ____ Yes (2) ____ No (Call 800-CPA-FIRM for information.)

Registrant's Last Name _____ First _____ MI _____ Nickname for Badge _____

Firm Name or Affiliation _____

Street Address _____ Suite _____

P.O. Box _____ City _____ State _____ Zip _____

Total Amount Enclosed (\$) _____ Business Telephone _____

Name of Spouse or Guest for Whom Payment is Enclosed _____ Nickname for Badge _____

Name and Telephone Number of Individual to Contact in Case of Emergency _____

____ Send information on services for the physically disabled. What is the nature of the disability? ____ Visual ____ Audio ____ Mobile

Attendee Profile Information

Missing or incomplete Attendee Profile Information will delay your registration!

PLEASE INDICATE THE TOTAL NUMBER OF PROFESSIONALS IN YOUR FIRM:

(3) ____ 1	(6) ____ 7-10	(9) ____ 31-50
(4) ____ 2-3	(7) ____ 11-20	(10) ____ Over 50
(5) ____ 4-6	(8) ____ 21-30	(11) ____ Not applicable/Not with CPA firm

PLEASE INDICATE THE TITLE THAT MOST CLOSELY MATCHES YOUR POSITION IN THE FIRM:

(12) ____ Sole Owner	(15) ____ Firm Administrator	(18) ____ Staff
(13) ____ Senior/Managing Partner	(16) ____ Marketing Director	(19) ____ Other/Not with CPA firm
(14) ____ Partner/Shareholder	(17) ____ Partner-in-Training	

WHICH OF THE FOLLOWING AICPA CONFERENCES HAVE YOU ATTENDED IN THE PAST? (Check all that apply.)

(20) ____ PCPS Conference	(23) ____ Marketing and Managing a Tax Practice
(21) ____ National Practice Management Conference	(24) ____ National Accounting and Auditing Advanced Technical Symposium
(22) ____ National Small Firm Conference	

PLEASE INDICATE YOUR PRIMARY FIELD OF INTEREST:

(25) ____ Management	(27) ____ Tax	(29) ____ Governmental/NFP Accounting/Auditing
(26) ____ Technology	(28) ____ Accounting & Auditing	(30) ____ Consulting Services/PFP

Your Voice in Washington

AICPA workload bill leaps major hurdle

In September, as part of its budget reconciliation package, the House Ways and Means Committee approved the AICPA's workload compression bill, H.R. 1661. This means the Institute is on track with its strategy to hook H.R. 1661 onto the first tax bill slated for a vote this year by the House and Senate. It does not mean the issue is cut-and-dried, however. There are still some significant procedural and political obstacles along the way.

The budget reconciliation package will move through the House as part of the budget bill and the Institute believes that is fine for its proposal. It faces a sterner test in the Senate, however, where it could run afoul of that body's procedural budget rules.

On the political side, the budget package, which will encompass tax cuts, welfare reform, and medicare reform, seems destined to be one of the most controversial budget bills to ever come before Congress. It could face a presidential veto.

AICPA-backed S corporation reform provisions added to budget reconciliation bill

The House Ways and Means Committee added various provisions of the *S Corporation Reform Act of 1995* (H.R. 2039) to its budget reconciliation bill, which will be rolled into the budget package on which the House and Senate will vote later this year.

The Institute was instrumental in helping draft the proposal that was eventually introduced as H.R. 2039 and is pleased parts of it are in the Committee's bill. The S corporation reform provisions confront the same obstacles as the workload compression relief proposal, however.

Among the S corporation reform provisions included are the following:

- ☐ Increase the allowable number of shareholders from thirty-five to seventy-five.
- ☐ Expand the types of trusts that can own S corporation stock.
- ☐ Remove the tax traps by permitting the Secretary of the Treasury to treat invalid elections as effective and by providing for automatic waivers of certain inadvertent terminations.
- ☐ Permit an S corporation to own up to 100 percent of a corporate subsidiary.

Provisions of H.R. 2039 not included are the ability to issue preferred stock and to aggregate members of one family in order to be counted as one shareholder. ☒

Conference Calendar

National Conference on Credit Unions
November 13-15—Registry Resort, Naples, FL
Recommended CPE credit: up to 20 hours

Annual Conference on the Securities Industry
November 14-15—New York Vista Hotel, New York, NY
Recommended CPE credit: 14 hours

National Conference on Banking*
November 16-17—Grand Hyatt, Washington, DC
Recommended CPE credit: 17 hours

National Business Valuation Conference
December 4-5—New Orleans Hilton Riverside, New Orleans, LA
Recommended CPE credit: 16 hours

National Construction Industry Conference
December 4-5—Arizona Biltmore, Phoenix, AZ
Recommended CPE credit: up to 18 hours

Fall Tax Division Meeting*
December 4-6—Hotel del Coronado, San Diego, CA
Recommended CPE credit: 8 hours

Professionalism in Tax Valuations*
January 8—Grand Hyatt, Washington, DC
Recommended CPE credit: 8 hours

Conference on Current SEC Developments*
January 9-10—Grand Hyatt, Washington, DC
Recommended CPE credit: 17 hours

Personal Financial Planning Technical Conference*
January 8-10—Sheraton New Orleans, New Orleans, LA
Recommended CPE credit: 21 hours

To register or for more information, call the AICPA CPE division, (800) 862-4272.

*For more information, call the AICPA meetings and travel department, (201) 938-3232.

PCPS Toll-Free Numbers

PCPS member firms can obtain prompt help at the Institute by using PCPS's toll-free telephone and FAX numbers.

Dave Handrich will assist PCPS members with questions on CPE, peer review status, discrimination, and other matters, and address queries about PCPS member products and services.

If you are a PCPS member firm and need help, you can contact Dave via tel. (800) CPA-FIRM and FAX (800) FAX-1112. ☒

Lighten Up at the Office

Whatever its cause, stress can contribute to health problems and result in job dissatisfaction, low productivity, poor performance, and absenteeism. Such situations, in turn, can result in poor-quality products and service and could have a severe financial impact on a CPA firm.

Humor and laughter are powerful antidotes to stress. In fact, medical research shows that laughter results in several physiological benefits, including exercising the lungs and stimulating our circulatory and cardiovascular systems.

Humor is the quality of taking a situation and finding something funny in it. A sense of humor comes from having a positive attitude about life, in general. When this exists, people tend to enjoy their work and to be more productive, and often communicate better.

Five good things happen when we communicate with humor

- ☐ We get our listeners' and readers' attention
- ☐ They become relaxed
- ☐ An adverse message becomes more palatable
- ☐ Messages are remembered longer
- ☐ We build rapport.

Let's see how this can be done.

We have to learn to take our jobs seriously and ourselves lightly

Being able to laugh at ourselves is part of having a sense of humor, and humor can help us keep the right perspective on everyday problems that sometimes seem overwhelming.

The key to finding humor in everyday situations is to be open and relaxed. This means that having fun at work is acceptable to and approved and encouraged by management.

There are numerous ways to instill humor in the office. You can begin in the reception area by making sure there are some humor magazines in with the business periodicals. You can post cartoons and jokes on a bulletin board and FAX amusing cartoons to clients and business associates. You can write light-hearted memoranda to staff and begin meetings with a joke or funny story. You can gather ideas and material for these efforts from humorous audio and video-cassettes, and by collecting jokes, entertaining anecdotes, and comical newspaper headlines in a notebook.

Firms that survive and prosper in the coming years will be those with management styles that are often drastically different from styles of the past. Knowing that happy employees are the key to their success and profitability, these are likely to be the firms that try to make their offices friendlier places in which to work.

What better way to create a friendlier environment than by enabling people to have fun at work? Remember, we don't stop playing because we grow old. We grow old because we stop playing. ✓

—by **Stephen N. Klein, CPA**, *Klatzkin and Company, 1670 Whitehorse-Hamilton Square Road, PO Box 8188, Trenton, New Jersey 08650, tel. (609) 890-9189, FAX (609) 890-6235*

Surf's Up at Accountants Forum

In the three months since the online service began operations, CompuServe users have visited the different areas of Accountants Forum 8,700 times. Over 4,000 messages have been posted in the message center—the area receiving the most attention.

Users with auditing or accounting questions log in and, in some cases, receive fifteen to twenty responses from other practitioners. Other people request information about the type of software they need and obtain responses from users who have experience with specific packages or from vendors who visit the Forum.

The library area is also popular. This is where the AICPA posts exposure drafts and documents and where the 34 participating state societies post information about their activities.

AICPA and participating state society members who are already CompuServe users can access Accountants Forum by entering the GO AICPA command or, if using WinCIM, by clicking Professional on the main menu and selecting Accountants Forum. If you wish to open a CompuServe account, you can call (800) 524-3388 (ask for the "AICPA Package" or "rep #748"), and receive free communications software and a \$15 usage CompuServe credit. Users are charged \$9.95 per month for CompuServe basic service, plus \$4.80 per hour of time spent in the Accountants Forum. Additional charges will be made for downloaded publications; products purchased online will be billed separately.

CompuServe is accessible from a variety of computers and operating systems, including DOS, Windows, OS/2, and Macintosh. The AICPA is encouraging users to select the Windows platform and CompuServe's free WinCIM software because of its ease of use and graphical representation of the online structure. The minimum equipment requirements were listed in the July 1995 *CPA Letter*.

The surf is up at Accountants Forum, and a rapidly growing number of members are riding the waves. It is a particularly attractive area for practitioners to visit, obtain answers to questions, and share practical information. ✓

Sailing Through Peer Review

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you to convince him or her that you did the work and that only the documentation was neglected. Normally, the letter of comments would then say, in effect, that the firm did not document certain areas of audit planning, but that after discussion with engagement personnel, the reviewer is satisfied that the planning was proper.

If you know the MFC is an isolated occurrence, that is, it has only happened once, show the reviewer other examples to prove your point. If the reviewer is convinced, that will be the end of the matter. Be aware, though, if you only do one job of that type, you cannot prove it was an isolated occurrence and it may result in a comment.

Ask for references to professional standards if you are not sure whether the issue raised really applies to the engagement in question. Sometimes reviewers will highlight personal preferences rather than professional standards. Distinguishing between suggestions and requirements is important.

Research the issue, consult with another reviewer or CPA, or call a technical hotline if you are not convinced the point is valid. To reiterate, this is the level at which to argue the point. The reviewer's goal is to get you to agree to the points on the MFC. You have to sign the form and say whether you agree or not. Should the reviewer indicate that an engagement does not meet professional standards in all material respects, this is not necessarily an indication that you will receive a qualified peer review report because the report is on your quality control system, not engagements. It does indicate the need for action, however.

Examples of engagements that do not meet professional standards are ones in which you did not perform all the required procedures but issued a report anyway. Or perhaps you have a cash-basis compilation with a regular GAAP report that does not indicate the correct basis of accounting.

If the reviewer brings such an engagement to your attention and indicates there is a need to take some action on it, it is your responsibility to read the appropriate professional literature and decide what you are going to do. Generally, this will consist of recalling your report and the accompanying financial statements and reissuing one or both. If you omitted certain audit procedures, you can go back and perform them.

When an engagement does not conform with professional standards, it is the reviewer's responsibility to question you about the action you intend to take. The reviewer must document this in the files, and also document whether he or she agrees with you or not.

The exit conference

At minimum, I suggest all owners attend the exit conference, as this shows the firm's commitment to quality control. Some firms like their accounting and auditing staff to be there, too.

You should have an idea as to the kind of report you will receive by the nature of your findings notes on the MFCs. If the MFCs did not contain anything serious, you know you will receive a good report. The reviewer should not leave the exit conference without your knowing specifically what will be in your letter of comments and what the findings and recommendations will be, as well as the type of report you will receive.

Repeat comments are important to the committee that is accepting the review. If you have comments that are repeated from the prior review, the committee may call for corrective action different from that on the previous review.

Make sure that what is noted as a repeat comment really is a repeat. For example, on your previous review, the letter of comments said you missed several disclosures because although the firm's quality control policies require the completion of a disclosure checklist, they were not completed on the engagements reviewed. You agreed to ensure that the checklist would be completed on all engagements.

On your current review, the team captain noted that disclosure checklists are being completed, but disclosures are missing for concentration of credit risks. This is a disclosure required by a recent pronouncement, and the reviewer might also have noted that the firm is not obtaining continuing professional education relating to accounting and auditing. Therefore, the reviewer might conclude there is a weakness in the firm's professional development policies and that is what caused the disclosure deficiencies. Since this was not noted in the prior review, the finding would not be considered a repeat finding.

Solicit ideas and use the reviewer as a consultant who has come in to look for ways to improve your practice. Ask for copies of everything before the reviewer leaves. Everything should be accomplished at the exit conference.

You are required to issue a letter of response within thirty days of receiving the report and letter of comments. (If you are an SECPS member, you must respond within fifteen days.) Make sure your response is genuine, feasible, and specific. At minimum, the team captain should review your response to make sure it reflects an understanding of the findings and describes the actions the firm has taken or will take with respect to each matter discussed in the letter of comments.

There shouldn't be any disagreements at this point, since they should have been ironed out at

Sailing Through Peer Review

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the MFC level. Nevertheless, if you are in disagreement with the conclusion of the reviewer after you have responded to the MFCs and cannot resolve those differences, you can go to the technical reviewers at the state CPA society or AICPA. If you still can't agree, you can appeal to the state peer review committee.

The state committee acceptance process is clear and standard. A technical reviewer reads the peer review report and letter of comments, and the firm's response to these items along with the workpapers. He or she then evaluates whether the review has been performed and reported on in accordance with the peer review standards and evaluates whether the MFCs support the report and the letter of comments, and whether the letter of response is genuine, feasible, and specific.

The peer review committee operates under administrative guidelines established by the AICPA peer review board. Each state committee has the responsibility to determine if the review was performed and reported on in accordance with the standards established for the program. The committee also determines if it should require any remedial, corrective actions in addition to those you

have indicated in your letter of response that you will do. The results of the review are not final until the committee sends you a letter saying it has been accepted. Additional corrective action, if any, will be detailed in this letter.

Conclusion

There is no denying that it is uncomfortable to have someone come to your office, look at your work, and write a report on what he or she finds. As stated in the first part of this article, because you are relying so much on the reviewer's judgment, it is imperative to hire someone who has hands-on experience working in the field with clients and industries like yours—a true peer, in fact.

In addition, a positive attitude will make considerable difference in the level of stress you experience during the review. Look upon it as an educational experience. Conduct some in-house CPE based on the findings. Learn ways to improve your operation and make your firm more profitable. In short, use your review in the best way you can. ☒

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